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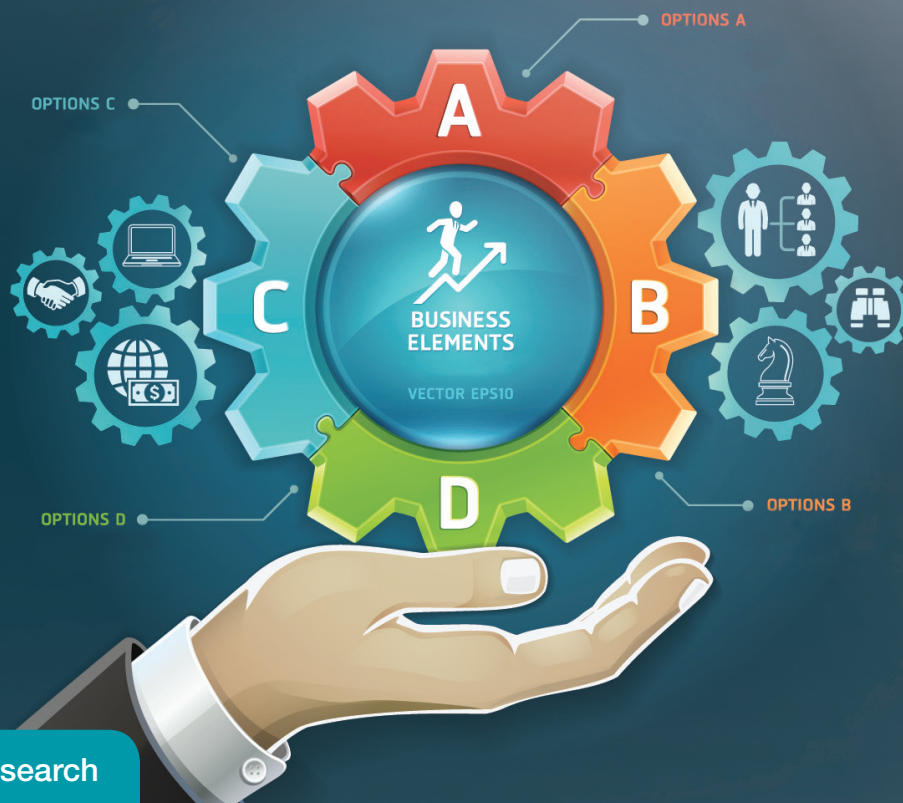
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Institute for Policy Research



A new industrial policy for the UK – some guidelines for policy-makers



About this research

Global financial crisis, failures in corporate governance and economic management and the on-going recession - the worst since the 1930s - has led to dissatisfaction with the neoliberal economic model which has dominated economic policy-making for the last 30 years. In the UK there is an emerging debate about the need to re-balance the economy, away from heavy consumerism and an unhealthy reliance upon the financial sector. This has led to a revival of interest in industrial strategy and calls for the UK government to adopt a more proactive role in promoting long term sustainable productive activities.

Research by Professor Keith Cowling (University of Warwick) and Dr Phil Tomlinson (University of Bath) argues that while such an approach is welcome and timely, it is also important that any new policy framework considers and addresses the underlying economic governance structures in the UK economy. They raise concerns that concentration of economic power within the (transnational) corporate sector significantly reduces the potential for industrial policy to foster enduring economic growth, and is detrimental to the wider public interest. Their research explores the prospects and makes recommendations for a new UK industrial policy, by considering the experiences of industrial policies employed around the globe.

Research findings in context

Although there are calls in the UK for a new industrial strategy, there is as yet little understanding of what policy frameworks and guidelines may be needed to achieve more long term sustainable productive activities which are in the wider public interest. The research identifies three issues that need to be understood in order to develop effective industrial policies. These are: the reasons for the failure of the neoliberal economic model known as the 'Washington Consensus'; the significance of the underlying economic governance structure of the economy and what this means for the distribution of economic power among economic actors; and, given the economic governance structure, the efficacy of different industrial policies in terms of the extent to which the wider public interest is met.

1. Reasons for the failure of the 'Washington Consensus'

For the last 30 years, both the UK and the US, have been at the forefront of implementing and maintaining a mode of capitalism that became widely known as the 'Washington Consensus'; so-called as its policies were actively promoted by the Washington institutions, namely the World Bank and the IMF. In short, the consensus advocated that countries adopt neo-liberal economic policies such as extensive liberalisation/de-regulation, privatisation and a minimal role for the state.

The problem with this model is that while the intention was to promote greater competition and efficiency, in reality it facilitated an unabated growth in the economic power of the corporate sector and, in particular, transnational corporations. Moreover, in the UK, as the state generally withdrew from supporting industry, and allowed 'market forces' to shift the economy away from its traditional strengths in manufacturing towards its 'new comparative advantage' in financial services, significant regional disparities emerged in terms of social and economic opportunities, wealth and prosperity.

The ensuing global financial crisis in 2008, the subsequent global recession, and associated concerns of abuse of corporate power have led many to question the neo-liberal model. In the UK, the crisis has highlighted the underlying fragility of an economy that has become over-reliant upon the financial sector. This has led to calls for a different approach to managing the UK economy, with a greater role for the state to promote regional and industrial development (see the recent report by Lord Heseltine 2012).

Key findings

The research found that:

- The failings of the neoliberal economic model that has dominated economic policy-making for the last 30 years (the so-called 'Washington Consensus') has led to a renewed interest in the role of the state and industrial policy to re-balance the UK economy.
- Other countries, such as Japan and the US, have in the past successfully adopted industrial policies to promote key industries and sectors. Industrial policy has the potential to revitalise UK manufacturing, stimulate innovation and promote long term growth and jobs.
- The long term success or failure of industrial policies is linked to underlying economic governance structures. Where policies promote and enhance the market power of large (transnational) corporations, there is a danger that the wider public interest is not met.
- Industrial policies might best be tailored at regional and local levels (in particular, cities) to promote regional re-generation, nurture and exploit cluster dynamics and facilitate more diffuse forms of economic governance and local democracy.

2. The significance of economic governance, corporate power and the public interest

An economy's underlying economic governance structure determines the ability (power) of various actors to participate in strategic decisions affecting the direction of the (local/ regional/national) economy (e.g. decisions on employment, investment, the environment). While there may be a willingness to pursue new industrial strategies, in economies where economic power is concentrated among a few actors, and is exercised in a hierarchical way, it is likely that their strategic interests will dominate and the wider public interest will not be met. For example, because neoliberalism enhanced the power of transnational corporations in their bargaining relations with nation states, regions,

local suppliers and labour forces, a transnational's threat of relocating production from one location to another allows it to exploit its resources at the expense of others (e.g. tax advantages, lower wage rates). A recent example was General Motors (GM), who in 2011/2012 secured significant concessions from its Ellesmere Port workforce (and local suppliers) by threatening to close the UK facility in favour of retaining production in Bochum, Germany (which GM subsequently closed). These situations create greater uncertainty and a more unstable economic climate, which is not conducive to sustainable long-term growth.

3. The efficacy of industrial policy

Until recently, industrial policy has been much maligned, often associated – in the UK - with a bygone era of inefficiency and state bailouts to 'lame duck' industries and 'failing' companies. However, such a distorted view neglects the positive role the state has played in industrial development around the world (and historically, in the UK). For instance, the post-war success of Japan was largely attributed to the role played by its Ministry of International Trade and Industry in supporting 'strategic industries'. The US government has also played an important role in science and innovation, albeit this has largely been through supporting its defence industries. There are other significant examples in the literature, such as in China and Italy, which document the positive role of industrial policy in development.

In assessing the long run efficacy of industrial policy, the research by Professor Cowling and Dr Tomlinson explores some of these cases, paying particular attention to the underlying economic governance structures of these economies and the extent to which industrial policies served the wider public interest. They find that while an active industrial policy generally has a very positive impact upon economic development - facilitating innovation, dynamism and growth - the wider public interest is not always met as this is contingent on the underlying governance structure. For instance, in Japan, industrial policy has been orientated towards promoting large corporations as 'national champions', such as Toyota. As these companies grew, they began to exercise greater economic power, positioning themselves as global actors and began to outsource production. This led to a significant 'hollowing out'

of Japanese industry in the 1990s. In contrast, in the Italian industrial districts, industrial policy was geared towards a more diffuse governance structure, largely focused upon promoting co-operation and competition among regional networks of small and medium sized firms. This tapped into and exploited the dynamics of regional clusters, while also allowing for wider participation in the local development process to deliver sustainable growth. Similar patterns were observed in China's Town and Village Enterprises (TVEs).

Policy implications

The review of industrial policies, leads this research to recommend the following guidelines for a new UK industrial policy:

- Industrial policy should predominantly be regionally based, with cities playing an important role, and focused upon providing infrastructure and support to upgrade existing technologies and enhance innovation. This will be particularly important in regions and cities which have suffered from de-industrialisation. Such policies will generally be more effective if synergies can be fused between old and new technologies, since this (potentially) exploits existing (regional) competences.
- In addition, there should be a greater emphasis upon promoting inter-firm networking and closer links with institutions (such as universities and research institutes) within and outside regions. There is substantive evidence that local networks, with external global links, provide the impetus for knowledge transfer, innovative endeavour and dynamic growth.

Finally, industrial policy should pay attention to economic governance and avoid entrenching/promoting positions of economic power. The findings suggest a need for policies that promote autonomous networks of small and medium sized firms - which are largely independent from transnational corporations - and are embedded in the local community. In addition, state support – whether financial or the provision of public facilities for research – should be carefully apportioned to meet local demands. In particular, the research argues that support for transnationals should be restricted, so as to ensure a better use of resources and avoid abuses of corporate power.

Methodology

The research explored the experiences of past industrial policies employed in the USA, the UK, Japan, Italy, China, Russia and the so-called transition economies. The authors drew upon their own previous research and long standing observations of industrial policy employed in these economies and the underlying economic governance structures. They also drew upon material from the wider literature. In evaluating the efficacy of industrial policy in these economies, the authors paid particular attention to the concentration of market power and its impact upon the wider 'public interest'.

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More on this research:

Cowling, K.G. & Tomlinson, P.R. (2011) 'Post the 'Washington Consensus': economic governance and industrial strategies for the twenty-first century, *Cambridge Journal of Economics*, 35, 831–852

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